CALIAN

20 Years of Making the Right Moves

ANNUAL REPORT 2002

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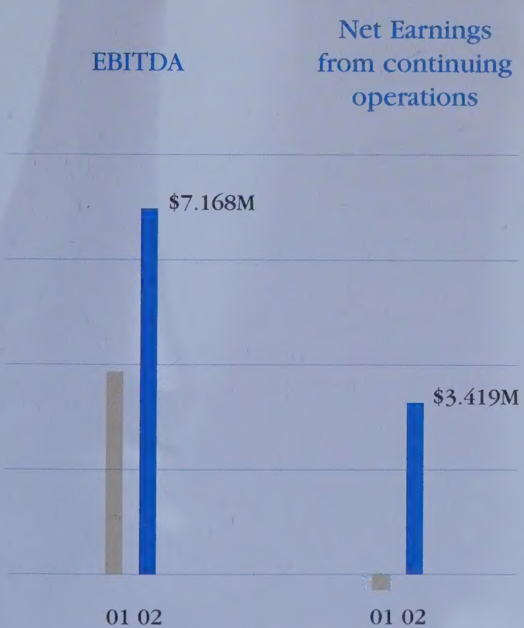
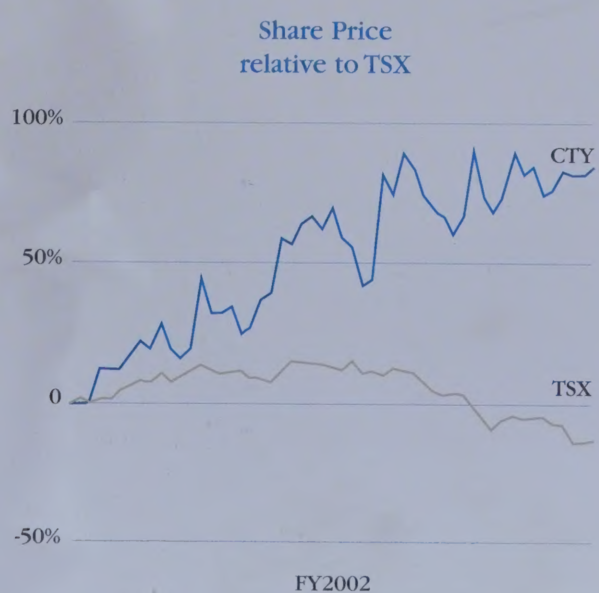
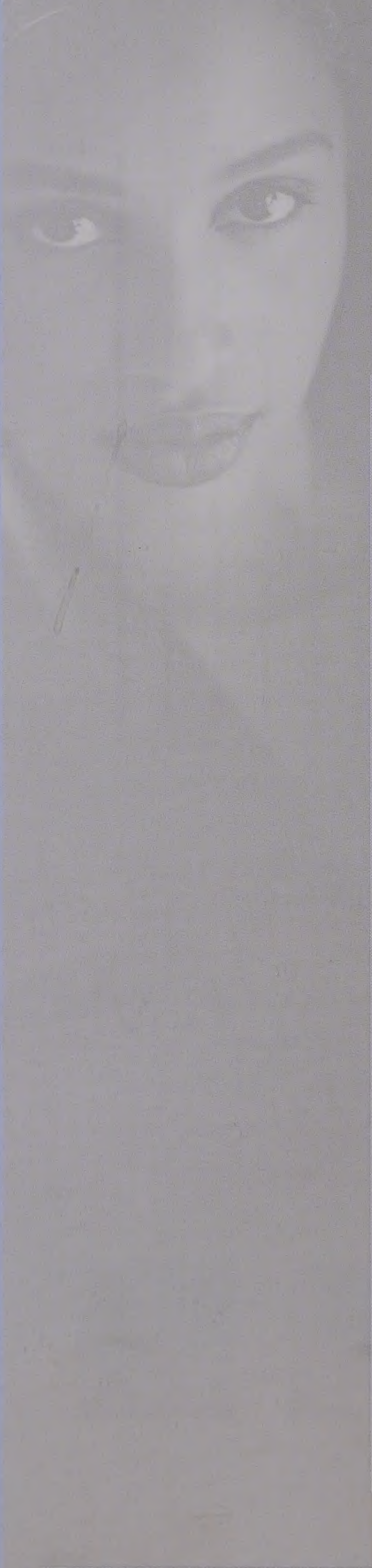




EBITDA: Earnings before interest, taxes and amortization



Statement of Purpose

Calian's vision is to be the most desirable technical, professional and administrative services company to work for, buy from and invest in.

For 20 years, Calian has pursued this vision of excellence, through honesty and commitment, to benefit our employees, our customers and our shareholders.

Employees

We believe in a partnership with our employees that goes far beyond fair compensation. At Calian, we strive to provide a superior place to work and to build a career, a place where our people are recognized as the best in their fields.

Customers

We are driven by this simple fact—our success depends on the success of our customers. Our commitment and attention to helping them succeed is built on integrity and flexibility in understanding, and then meeting their individual needs.

Shareholders

We are responsible to those who buy and hold our shares. Through prudent and effective management, we will continue to achieve our targets for growth and profitability, rewarding the trust our shareholders have placed in us.

Although our strategies and tactics will change to adapt to a changing environment, our core values will not. Our emphasis on empowering our people to fully satisfy our customers is the basis for our continued growth, which will provide benefits to all our stakeholders.

Message from the Chairman and CEO

The last few years have been a roller-coaster ride for many companies. The dot-coms in particular saw boom, then bust. Fundamental business principles gave way to a pre-occupation with managing equity transactions and worrying about inflated expectations. In the end, many were satisfied with simple survival.

Calian's story is different. Throughout the 1980s and 1990s, we have not only survived, we have grown and strengthened. We have continued to stay focused on running and growing our company, pressing ahead in pursuit of our vision. For 20 years, we have been making the right moves.

As we celebrate our 20th anniversary, I am most proud of the commitment to execution that is evident throughout the entire Calian organization. It is there in the strong senior management team we have assembled, a team that is focused, attentive and prudent. It is there in the ranks of middle management who provide the kind of day-to-day leadership that encourages and allows employees to do their best. And it is there in the employees themselves, who work diligently, guided by our core values of teamwork, initiative, integrity and commitment, to serve our customers better and to bring them more value.

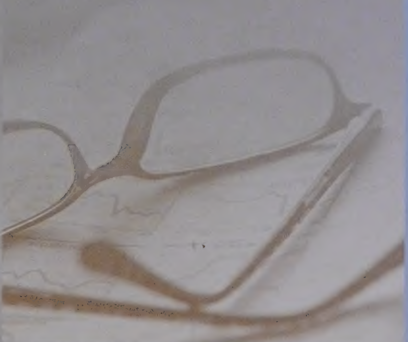
Under the capable leadership of Ray Basler, President and COO, Calian executed superbly in 2002, and is now one of the most profitable service companies in Canada. During the year, our sales increased by 9% over the previous year to reach a record level of $132 million. Our focus on cost reduction yielded a 9.4% decrease in operating expenses and, as a result, our Return on Capital Employed increased significantly.

Persistence pays off, and today our house is in order. Ours is a stable and balanced company. Our financial affairs are under control. We have earned the respect of a broad base of satisfied customers. Our business focus is clear and unwavering. Working to the standards of ISO and the National Quality Institute, our productivity and efficiency have never been higher. Our management and staff alike are motivated and confident.

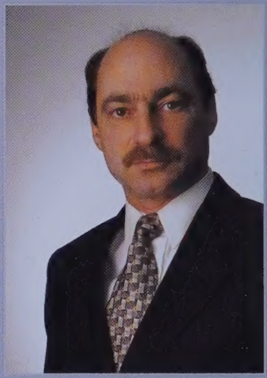
The foundation is solid, and on that foundation, we will continue to build our future. We have the financial and management resources to pursue our vision, poised and able to capitalize on the opportunities that will sustain our growth—opportunities to increase market share and to address new markets that lie at the fringes of our current strongholds. With our house in order, we can achieve all the measures of a successful business—top-line growth, positive cash flow and profitability. Consistent results will bring our shareholders the true value they expect and deserve.

On behalf of the Board of Directors, I wish to thank our employees, customers and shareholders for their contributions that have been central to our success so far. I look forward to their participation as we continue the mission we started 20 years ago.

Larry O'Brien
Chairman and CEO



Report on Operations



Befitting our 20th anniversary, 2002 was a banner year for Calian. Record revenues combined with reduced operating expenses resulted in a substantial increase in returns. Attention to existing customers yielded repeat business, and focused marketing efforts generated business with new clients, to end the year with a backlog of $123 million.

Most importantly, both of Calian's divisions executed skillfully against their plans. Each made a strong contribution to overall company results, and each strengthened its position for the future. I am particularly pleased with the strong and experienced management teams we have in place and the balance we have achieved.

Systems Engineering

During the year, the Systems Engineering Division (SED) once again achieved outstanding results. With business from a blend of new and existing customers, revenues increased over 15% from the prior year. SED's long-time customer Inmarsat, provided a key source of work as they continued the build-out of their next generation of satellites. Follow-on manufacturing services were contracted with customers such as General Dynamics Canada, Kidde Dual Spectrum and Systems & Electronics Inc. A new SED monitor and control system achieved significant market acceptance when Intelsat standardized on its use for all its remote earth stations. Good progress was made on a number of major existing projects with Inmarsat and the European Space Agency. With strong project management and attention to operating costs, SED's operating contribution exceeded 10% of revenues.

Our quality management system was certified as conforming to the requirements of the new ISO 9001:2000 standards—we were one of the first in our industry to meet them. SED was once again honoured to be included among Canada's top 100 employers.

Looking forward, SED's key objective is continued profitable growth through on-going development of its primary satellite communications business, and by applying core competencies to other adjacent markets.

Staffing and Outsourcing Services

At the beginning of 2002, the Staffing and Outsourcing Services Division had three key objectives for the year—to achieve a stable work environment, to improve profitability, and to generate positive cash flow. All three objectives were met.

Overall revenues for the Division increased by 6%, a significant achievement in a difficult market environment. In the midst of stiff competition, the Outsourcing group won new long-term contracts with the Canadian Department of National Defence. These contracts represent a potential for over $25M in new business over their lifespan. Our United States subsidiary expanded its support into the aerospace market to include content management support services to Lockheed Martin Corporation for the F-16, C-130 and C5A programs. Staffing Services won new contracts and contracting arrangements with numerous Canadian government departments and commercial entities, both directly and in associated teams with such companies as CGI and AJJA.

The operating contribution of the Division increased by over 70% from last year, the result of significant cost reductions in all areas of the Division and streamlining of business processes. We successfully upgraded the internal SAP-based ERP system, on schedule and under budget. Late in the year, we received Level 1 certification from the National Quality Institute under the Progressive Excellence Program.

The Staffing and Outsourcing Services Division is well positioned in both the public and private sectors. We are poised to improve profitability through growth in revenues combined with an efficient back office that can accommodate more business with little or no additional cost.

The exit from e-business left us with a corporate office in excess of that required for the remaining businesses. With detailed attention to all costs and activities, we reduced corporate and common costs by 49% from the prior year, a remarkable achievement in a short period.

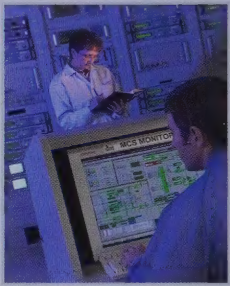
Company-wide, 2002 was indeed a banner year for Calian, a year of strong results and of building for the future. Our heritage of delivering quality services and systems will no doubt continue to be a differentiating factor. With our house in order, a healthy backlog, strong management teams and the resources we need to pursue our vision, we have the ingredients for continued growth and prosperity.

Ray Basler
President and COO

Business of the Company

Calian sells technology services to industry and government. In a nutshell, we do two things very well:

Systems Engineering



We design, implement and install solutions for the communication industry that are used to test, control and manage our customers' systems and networks.

SED's primary market is the satellite communications sector, where customers include many of the world's leading satellite manufacturers, operators and service providers. Our systems are operating on six continents. Contract manufacturing services are also provided to telecommunications, aviation and military customers in North American markets. Overall, more than 70% of our annual revenues are derived from exports.

We are a project-based systems integrator. We work with clients to develop custom solutions tailored to their specific needs. The business is characterized by long-term, fixed-price contracts, won through competitive tenders, that often span more than one fiscal year and that often include a high percentage of purchased commercial equipment.

Our emphasis is on timely delivery of dependable products and a flexible approach to customer relations. Our core competencies differentiate us from our competitors—strong project management, systems engineering know-how in radio frequency design, and software development. Our full-service approach addresses customer needs from design through to long-term maintenance.

Staffing and Outsourcing Services

We provide clients with ready access to an exceptional team of nearly 2,000 engineers, telecommunications and technology professionals, administrative personnel and other highly qualified staff.

We augment customer workforces with flexible short and long-term contract staff, recruitment services and multi-year outsourcing activities including project management, technical operations, training and engineering support functions. Our services afford customers the flexibility to manage their workforce requirements, allowing them to focus their vital internal resources on key priorities.

Staffing Services provides per diem resources and placement services through qualified vendor and supply/standing offer arrangements. Outsourcing services are typically contracted for a multi-year period and often include multi-year renewal options. Such arrangements are typically won in a competitive environment in response to formal requests for proposals.

The market for our services is diverse and highly competitive. Our advantages include the breadth of services we offer, exceptional recruiting capabilities for skills that match our customers' needs, effective management of our employees in the field and competitive rates. By taking the time to understand customer requirements and then delivering what each client needs, both Calian and its customers achieve their business goals.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the audited consolidated financial statements and notes included in this annual report. As in the consolidated financial statements, all dollar amounts in this Management Discussion and Analysis are expressed in thousands of Canadian dollars unless otherwise noted.

This annual report may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, those set forth in the Management's Discussion and Analysis section of this report and as discussed in public disclosure documents filed with Canadian regulatory authorities. Calian disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Calian Technology Ltd. provides diversified systems engineering and staffing and outsourcing services to industry and government through its wholly owned operating subsidiaries Calian Ltd., Calian Inc. and Calian Technology (US) Ltd. Calian currently operates in two reportable segments, defined by their primary type of service offerings:

> Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector. The Systems Engineering Division has its principal office in Saskatoon.
>
> Staffing and Outsourcing Services involves both short and long-term placements of personnel to augment customers' workforces (Staffing) as well as the long-term management of projects, facilities and customer business processes (Outsourcing). The Staffing and Outsourcing Services Division has its principal Canadian offices in the Ottawa area and its U.S. office in Virginia.

During the first part of fiscal 2001, Calian also operated in the eServices business (eLearning, management consulting and other related areas). On May 16, 2001, Calian's Board of Directors approved a plan to dispose of eServices. The effective date of disposal was June 30, 2001. The results of operations of the eServices business are shown separately as a discontinued operation in the consolidated statements of earnings and are further described in Note 12 to the consolidated financial statements.

For the current year ending September 30, 2002, the Company's main goal was to focus on its core businesses, thereby creating a stable environment, returning to a cost-effective operation and delivering solid profitability and cash flow. All of these objectives were met.

Earnings before interest, income taxes and amortization of goodwill increased to $5,595 in 2002 compared with $2,085 in 2001. The Company reported net earnings of $3,419 for the year compared with a net loss of $14,694 in the previous year.

At September 30, 2002 there was $9,488 of cash and cash equivalents on the balance sheet.

The elements that make up the foregoing measures of profitability and cash flow are discussed below.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Revenues

Total revenues for the year ended September 30, 2002 were $131,876, a 9.3% increase over fiscal 2001 revenues of $120,648. Although the general business environment in 2002 was weak overall, Calian's ability to deliver high quality service, its strong customer relationships and successful sales and marketing efforts resulted in moderate revenue growth for the current year.

Calian's Systems Engineering Division accounted for revenues of $46,373 or 35.2% of total revenues, while Staffing and Outsourcing Services accounted for the balance of $85,503 or 64.8% of revenues. A year earlier, Calian's Systems Engineering generated revenues of $40,022 or 33.2 % of the total, while Staffing and Outsourcing Services, accounted for $80,626 or 66.8% of total revenues in 2001.

Calian's revenues are affected by the health of various countries' economies, particularly those of Canada and the United States. In Systems Engineering, the timing and nature of customers' spending decisions on telecommunication programs are determining factors of activity. In the Staffing and Outsourcing Services Division, employment growth and government spending patterns are particularly important.

The revenues of Systems Engineering increased by 15.8% over the prior year due to an increased level of hardware components included in the revenue mix in 2002 compared to 2001. While the satellite industry is experiencing a downturn, contracts with key long-term customers, such as Inmarsat, who were expanding their systems, provided the growth in revenue.

The 6.0% growth in 2002 revenues in Staffing and Outsourcing Services was mainly attributed to the increased demand for services with existing public sector customers. This revenue growth was achieved despite the deterioration in both the technology and telecommunications sectors. During the latter part of this year, Staffing and Outsourcing Services also won several new contracts that will begin to generate revenue early in the new fiscal year.

The Company derives a significant portion of its revenues from the Government of Canada. During the year, 37% of revenues were related to contracts with various departments and agencies of the Government of Canada, compared to 38% in fiscal 2001. Both operating divisions conduct business with this major customer.

The Company also derived 22% of its revenues from a major customer in the call-center business compared with 24% in 2001.

For 2003, management expects to achieve moderate revenue growth in each of its divisions.

Cost of revenues and Gross profit

The Company's cost of revenues includes all direct costs incurred in the provision of its products and services. These costs include all expenses associated with direct full-time staff, contract staff and subcontractors. They also include other direct costs, including the landed cost of hardware and software sold as components of a solution, travel and living expenses necessary in the delivery of the services, and provision for warranty where applicable.

For the year ended September 30, 2002, the Company reported a gross profit of $22,819 or 17.3% of revenues, which compares to $21,429 or 17.8% a year earlier. Gross margin percentages can vary significantly from year to year depending on the overall sales mix of services and the level of non-labour flow-through on projects.

The gross margin was 22% in Systems Engineering during 2002 compared to 21.5% the previous year as a result of excellent project control and operating cost management.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In the Staffing and Outsourcing Services Division, the gross margin was 14.8% in 2002 compared with 15.9% in fiscal 2001. The deterioration in the technology and telecommunications sectors, and the general economic slowdown produced a very competitive marketplace putting significant pressure on gross margins.

Management expects that, overall, the gross margins in 2003 will be similar to those achieved in 2002 and will largely be dependant on the realized sales mix and competitive pressures.

Selling, administration and other expenses

The Company separately identifies four principal expense categories in its consolidated financial statements - selling and marketing, general and administration, facilities, and amortization of capital assets. These are referred to herein as selling, administration and other expenses.

Total selling, administration and other expenses were $17,224 or 13.1% of revenues in fiscal 2002. This compares to $19,013 or 15.8% of revenues in 2001. As described below, the overall decrease of 9.4% in expenses is a direct result of the Company's effort in reducing its overhead structure and bringing it in line with current requirements. The Company also believes that, for the foreseeable future, operating costs will remain stable and will not increase proportionately to sales growth.

Selling and marketing

Selling and marketing expenses reflect all direct selling costs including salaries, commissions, travel and living expenses, the costs of proposal development and submission and the costs of account management activities conducted by sales personnel. The costs of the recruiting department are also classified as selling and marketing expenses, as this sales support role is key in obtaining resources for our customers.

Selling and marketing expenses totaled $4,601 compared to $5,215 in 2001. Selling and marketing expenses as a percentage of revenues were 3.5% in fiscal 2002 compared to 4.3% in fiscal 2001. Selling and marketing expenses are expected to increase slightly over the 2002 level, as the Company will focus its efforts towards building new customer relationships and expanding its service offering to new markets. However, selling and marketing costs are not expected to increase proportionately to the growth in sales as the Company continues to manage costs.

General and administration

The Company's general and administration expenses include all overhead-related expenses except facilities. General and administration expenses were $8,330 in fiscal 2002, compared with $9,244 the previous year. Expenditure levels decreased by almost 10% during the current year as a direct result of the Company's cost reduction initiative. It is not expected that general and administration expenses will significantly increase in the foreseeable future, even when the activity levels and sales volumes increase.

Facilities

Facility expenses, which include costs associated with office space, have been relatively stable over time. Facility costs during fiscal 2002 were $2,720 (or 2.1% of revenues) compared to $2,774 (or 2.3% of revenues). Commensurate with the exit of e-business in May 2001, Calian consolidated its Ottawa-based personnel into one building while subletting another building that it had begun to lease in June 2000. The Company's facility costs are net of the revenue earned on the excess space sublet to a third party. Management expects that facility costs will remain stable in the foreseeable future.

Amortization of capital assets

Amortization of capital assets totaled $1,573, compared with $1,780 in the previous year. The decrease is due to the lower rate of capital spending during fiscal 2001 and 2002, which affects the amortization expense in subsequent periods. The assets purchased in 2002 are in line with annual requirements for asset replacement. The amortization level in the future is expected to decrease as a result of the lower capital spending level in 2001 and 2002.

Special charge

In the first quarter of 2001 the Company recorded legal, settlement and other costs amounting to $331.

Interest income, net

Interest income is earned on the Company's excess cash and cash equivalents and is shown net of the Company's interest expense associated with its long-term debt and capital leases. Interest income amounted to $202 during the year, compared to $201 recorded in fiscal 2001. Interest income earned on certain customer deposits accrues to the benefit of the related project and accordingly is not presented in the Company's interest income.

Earnings before taxes and amortization of goodwill

Earnings before considering the provision for income taxes and the amortization of goodwill (EBTA) was $5,797 for the year 2002. In fiscal year 2001 EBTA was $2,286. The significant elements that account for the improvement in EBTA from 2001 to 2002 were the 9% sales growth and the 10% decrease in selling, general and administrative expenses described above.

Income taxes

Calian reports its results on a fully taxed basis, although significant cash taxes may not be payable for several years. The provision for income taxes during 2002 was $2,142. Since no new tax rate reductions have been announced and enacted during 2002, the effective tax rate for the year is representative of the Company's current federal and provincial income tax rates. Total income taxes paid in 2002 were $14.

The provision for income taxes during 2001 was $2,368. This includes the effect of income tax rate reductions on the valuation of future income tax assets to the extent of $1,055, which were recorded during that year.

The Company continues to have income tax losses and research expenditures to reduce future earnings for tax purposes. The total pool available (federal) to reduce future earnings as at September 30, 2002 amounted to $12,983. This compares to $16,090 available to the Company at the end of fiscal 2001. Calian also has $1,705 in investment tax credits available to apply against future federal taxes payable.

Goodwill

The Company did not make any acquisitions during the current year, therefore there has been no change in the level of amortization of goodwill. Effective October 1,2002, the Company will adopt the new recommendation of the Canadian Institute of Chartered Accountants with respect to the valuation of goodwill and other intangible assets. Under the new standard, the Company will no longer amortize goodwill. Instead, goodwill will be reviewed annually for impairment using a fair value method. The Company does not expect any charges for goodwill impairment as a result of implementing these new recommendations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Earnings (loss) from continuing operations

The Company reported earnings from continuing operations of $3,419 or $ 0.41 per share for the 2002 year. In fiscal 2001, the loss from continuing operations was $318 or ($ 0.03) per share.

Discontinued operation

In May 2001, the Company's Board of Directors approved a formal plan to dispose of all the assets of the eServices business and to focus its efforts on Systems Engineering and Staffing and Outsourcing Services. All revenues and expenses of eServices have been classified separately in the accompanying consolidated financial statements as a discontinued operation.

The net loss of eServices was $4,434 before taxes and $3,035 after taxes between October 2000 and May 16, 2001. Effective June 30, 2001 the Company disposed of the eServices business and recorded a loss on disposal of $13,287 before tax and $11,341 after tax, including rationalization costs and operating losses subsequent to May 16, 2001.

During the year, the Company settled all legal claims related to the acquisition of PPI Canada Ltd. The resolution of this matter did not require any further adjustment to the loss on disposal of the eServices business.

Net earnings (loss)

The Company reported net earnings of $3,419 or $ 0.41 per share for the 2002 year. In fiscal 2001, the Company reported a net loss of $14,694 or ($1.51) per share.

Operating results by quarter

The tables below provide certain financial information in summary form on a quarterly basis for the fiscal years 2002 and 2001.

As described in the discussion above, the results of operations of the eServices business have been shown as a discontinued operation in each quarter during fiscal year 2001. The difference between earnings (loss) from continuing operations and net earnings (loss) is represented by the after tax losses of the discontinued operation.

The Company's operations have historically been subject to some seasonality in its Staffing and Outsourcing Services Division due to the timing of vacation periods and statutory holidays. Typically the Company's first and last quarter will be negatively impacted as a result of the Christmas season and summer vacation period. During these periods, the Company can only invoice for work performed and is also required to pay for statutory holidays. This results in reduced levels of revenues and a decline in gross margins.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Quarterly Financial Data

(dollars in thousands except per share data)

	Fiscal 2002 Quarters ended (unaudited)				
	Dec 31, 2001	March 31, 2002	June 30, 2002	Sept 30, 2002	Total 2002
Revenues	$ 30,265	$ 33,245	$ 34,178	$ 34,188	$ 131,876
Cost of revenues	25,219	27,462	28,332	28,044	109,057
Gross profit	5,046	5,783	5,846	6,144	22,819
Selling, administration and other	4,351	4,316	4,076	4,481	17,224
Earnings before interest, taxes and amortization of goodwill	695	1,467	1,770	1,663	5,595
Interest income, net	64	29	50	59	202
Earnings before taxes and amortization of goodwill	759	1,496	1,820	1,722	5,797
Income taxes	350	611	681	500	2,142
Earnings before amortization of goodwill	409	885	1,139	1,222	3,655
Amortization of goodwill	59	59	59	59	236
Net earnings	$ 350	$ 826	$ 1,080	$ 1,163	$ 3,419
Net earnings per share					
Basic	$ 0.04	$ 0.10	$ 0.13	$ 0.14	$ 0.41
Diluted	$ 0.04	$ 0.10	$ 0.13	$ 0.14	$ 0.41
Weighted average number of shares					
Basic	9,179,049	8,030,518	8,047,923	8,023,873	8,320,341
Diluted	9,185,658	8,137,142	8,222,634	8,209,451	8,438,721

BALANCE SHEET DATA				
Working capital	7,181	9,139	11,137	13,380
Total assets	49,642	50,797	49,809	55,027
Long-term debt including current portion	465	426	386	345
Shareholders' equity	22,811	23,822	24,716	25,908

Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Quarterly Financial Data

(dollars in thousands except per share data)

	Fiscal 2001 Quarters ended (unaudited)				
	Dec 31, 2000	March 31, 2001	June 30, 2001	Sept 30, 2001	Total 2001
Revenues	$ 29,830	$ 31,898	$ 29,166	$ 29,754	$ 120,648
Cost of revenues	24,716	25,499	24,153	24,851	99,219
Gross profit	5,114	6,399	5,013	4,903	21,429
Selling, administration and other	4,865	4,925	4,951	4,272	19,013
Special charge	331	-	-	-	331
	5,196	4,925	4,951	4,272	19,344
Earnings (loss) before interest, taxes and amortization of goodwill	(82)	1,474	62	631	2,085
Interest income, net	44	23	20	114	201
Earnings (loss) before taxes and amortization of goodwill	(38)	1,497	82	745	2,286
Income taxes	598	640	540	590	2,368
Earnings (loss) before amortization of goodwill	(636)	857	(458)	155	(82)
Amortization of goodwill	59	60	58	59	236
Earnings (loss) from continuing operations	(695)	797	(516)	96	(318)
Net loss from discontinued operation	(2,049)	(645)	(341)	-	(3,035)
Net loss on disposal of discontinued operation	-	-	(11,341)	-	(11,341)
Net earnings (loss)	$ (2,744)	$ 152	$ (12,198)	$ 96	$ (14,694)
Earnings (loss) per share from continuing operations					
Basic	$ (0.07)	$ 0.08	$ (0.05)	$ 0.01	$ (0.03)
Diluted	$ (0.07)	$ 0.08	$ (0.05)	$ 0.01	$ (0.03)
Net earnings (loss) per share					
Basic	$ (0.28)	$ 0.02	$ (1.25)	$ 0.01	$ (1.51)
Diluted	$ (0.28)	$ 0.02	$ (1.25)	$ 0.01	$ (1.51)
Weighted average number of shares					
Basic	9,734,390	9,769,822	9,774,701	9,774,701	9,763,403
Diluted	9,734,390	9,828,795	9,774,701	9,796,875	9,763,403
BALANCE SHEET DATA					
Working capital	13,587	14,289	10,626	11,205	
Total assets	69,746	68,164	55,041	54,447	
Long-term debt including current portion	718	695	637	505	
Shareholders' equity	39,560	39,843	27,645	27,741	

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Calian's net cash position was $9,488 at September 30, 2002, compared to $12,211 at September 30, 2001. Before allowing for the effects of a share buyback, the Company's net cash position improved by $2,863 during the year.

Cash flows provided from operating activities in 2002 were $3,168, compared to $3,207 during fiscal 2001. Although profitability was lower during fiscal 2001, several working capital elements were a source of cash, notably accounts receivable and accounts payable and accrued liabilities. Accounts receivable were higher in 2002 than in the prior year due to a high level of billings near the end of the fiscal year. As at September 30, 2002, working capital amounted to $13,380, compared to $11,205 one year earlier.

In addition to cash, the principal components of the Company's working capital are accounts receivable (billed and unbilled), offset by accounts payable and unearned contract revenue. The market for Systems Engineering is characterized by long-term contracts with billings tied to milestones achieved, which often results in significant working capital requirements. Conversely, given the nature of this business, it is sometimes possible to negotiate advance payments on contracts. Such advance payments give rise to unearned revenue that will be realized as revenue over the course of the contract. As at September 30, 2002, the Company's total unearned revenue amounted to $13,483. This compares to $10,148 one year earlier. It is expected that unearned revenue will decrease somewhat over the upcoming year as the related work is performed and obtaining advance payments on new projects is expected to become more difficult.

Calian acquired $788 in capital assets during 2002, which is less than the $1,169 invested during fiscal 2001. During the fiscal year 2003, capital expenditures are expected to be in line with prior years. At September 30, 2002, there were no significant commitments to expend capital.

The Company repaid $151 of capital leases and other debt during the 2002 fiscal year. Total long-term debt, including the current portion, amounted to $345 at year-end. The amount payable within the next fiscal year is $164.

During fiscal 2002, the Company acquired 1,786,956 or 18.3% of its outstanding common shares under a Substantial Issuer Bid for a total of $5.3 million including related expenses or $2.80 per share. In addition, 130,528 shares were issued for cash and 79,500 shares were repurchased under the Company's Normal Course Issuer Bid. At September 30, 2002 there were 8,038,773 common shares outstanding.

At September 30, 2002 the Company had a short-term credit facility of $6,000 with a Canadian chartered bank that bears interest at prime and is secured by assets of the Company. The ability of the Company to draw on this credit facility depends upon the level of its accounts receivable and its meeting certain financial covenants. Outstanding letters of credit in the amount of $213 were applied against the available line at year-end.

Management believes that Calian has sufficient cash resources to pay the planned quarterly dividends, to finance its working capital requirements and to repay long-term debt as it comes due.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Significant Accounting Policies and Estimates

In 2002, the Company's most complex accounting policies and estimates were made in the area of revenue recognition on fixed-price projects and in the valuation of income tax assets.

Revenue recognition

The Staffing and Outsourcing Services Division's revenue is derived from cost-plus contracts where revenue is recognized when the services are provided. A significant portion of the System Engineering Division's revenue is derived from fixed-price contracts. Revenue from these fixed-priced projects is recognized using the percentage of completion method using management's best estimate. The greatest risk on fixed-price contracts is the possibility of cost overruns. Management's approach to revenue recognition is tightly linked to detailed project management processes and controls. The information provided by the project management system combined with a knowledgeable assessment of technical complexities and risks are used in estimating the percentage completion of each project.

Future income taxes

Income tax assets relate to the Company's future tax benefits, which include future tax deductions, loss carry-forwards and research and development expenditures. The valuation of tax assets is based on the amount of tax benefits available combined with the determination as to when the tax benefits will be realized and the tax rate in effect at that time. The Company has significant tax benefits that will be realized over several years. Because of the current declining tax rate structure, the year in which the Company realizes these benefits has a significant impact on the valuation. The tax assets are based on management's best estimate of the timing of recovery of these tax benefits.

Impact of Accounting Pronouncements Not Yet Implemented

For the fiscal year beginning in October 2002, Calian is required to adopt the recommendations of the new accounting standards on Goodwill and on Stock-Based Compensation. The impacts of the new accounting recommendations are not expected to be significant.

Long-term Strategy

Fiscal 2002 was considered a year of rebuilding with the focus on operational efficiencies and stability.

The Company is now well positioned to focus its energy on creating long-term shareholder value by delivering sustainable and profitable growth. Calian's long-term strategy is threefold:

- The Company will continue working with existing customers to identify new opportunities and to increase its presence with these customers.
- The Company will expand its customer base by focusing business development activities on new markets where the Company has identified business needs in line with the Company's current expertise. Opportunities will be pursued in adjacent markets to complement our core service offerings.
- The Company will pursue strategic complementary acquisitions of similar businesses. Careful review of these potential business acquisitions will be undertaken to ensure that the business fits within the current organization, that operational efficiencies will be realized and that the acquisition is economically justified.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Risks and Opportunities

Operational risk is managed through the establishment of effective infrastructure and controls. Key elements of the infrastructure are qualified, well-trained personnel, clear authorization levels and reliable technology. Controls established by documented policies and procedures include the segregation of duties, financial management and reporting and annual examination of internal controls by our auditors. In addition, the Company maintains insurance coverage and contingency plans for system failures or catastrophic events.

All participants in the Systems Engineering and Staffing and Outsourcing Services Divisions face some or all of the following risks and uncertainties:

- Competition for contracts within key markets
- A scarce number of qualified professionals
- Business and market cycles
- Potential legal and other liabilities in the event of non-fulfillment of contracts
- Rapidly changing technologies and customer demands
- Loss of business or credit risk with major clients
- Customers exercising options for early contract termination
- Insufficient or inappropriate mix of work for fixed labour resources
- Technical risks on fixed-price projects
- Restrictive export controls enacted by foreign countries

The Company actively monitors the evolution of the markets it serves and while seeking new business opportunities, adjusts its strategies and operations accordingly. Calian also continues to constantly upgrade the skills of its employees to ensure that they are conversant with the latest technology and with the needs of the marketplace.

Calian has established high standards for consistently delivering to specifications requested by its customers. As a result, the Company has achieved one of the industry's highest contract win and renewal rates. This success has, in turn, been an important motivator for Calian's personnel.

As the Company grows, it monitors the concentration of business in its various segments and with particular customers. In management's opinion, the fact that the Company operates in two segments and has a diverse customer base mitigates the potential impact on earnings and cash flow that could result from problems with an individual sector or customer. The Company does extensive in-bound call center business with a large private sector customer. Processes have been established to mitigate the Company's credit exposure with this customer.

Calian employs procedures to ensure that accurate estimating and review processes are followed. In addition, program management methodologies have been implemented to adequately manage customer changes and to identify and mitigate potential technical risk and related cost overruns.

The Company operates internationally with approximately 32% of its business derived from non-Canadian sources. A substantial portion of this international business is denominated in US dollars, and therefore the Company's results from operations are affected by exchange rate fluctuations of the US dollar relative to the Canadian dollar. The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. At September 30, 2002 the Company had sold forward US$14,150 at an effective exchange rate of 1.58. Other minor amounts have been hedged in other currencies, as explained in Note 11 to the financial statements.

The Company is involved in several lawsuits that are described in Note 8 to the financial statements. These matters are at various stages of litigation. The outcomes of these matters are not determinable at this time.

Management's Discussion and Analysis of Financial Condition and Results of Operations

As part of its e-business strategy, the Company entered into a 10-year lease for an office building in the Ottawa area expiring in May 2010. Upon exit of the e-business sector, the Company did not have any requirements for the space and accordingly sub-let the excess space to a third party for a period of 5 years ending May 2006. In the event the sub-lessee defaults on the payments or the Company cannot sub-lease the premises for the remaining 4 years, Calian will be required to assume the lease including related operating costs for the remaining term of the lease. The total annual cost of the lease and related operating costs is approximately $900.

Outlook for 2003

The Company is continuing on its path of rebuilding. The key element in the success achieved to date was the creation of a stable environment to pursue controlled profitable growth.

Having refocused management's attention on the Company's core capabilities, we will continue to build around only those activities at which we are best. Both business segments will achieve their revenue targets through strategically focused business development activities and doing so with minimal increase in administrative costs.

At September 30, 2002 Calian's contract backlog amounted to $123 million. Approximately 66% of this backlog will be earned in fiscal year 2003. Building on this solid order backlog and several contract wins in early 2003, the Company expects to achieve moderate revenue growth during the next fiscal year.

The Systems Engineering Division backlog is $44 million and the Staffing and Outsourcing Services Division backlog is $79 million.

Gross margins are expected to remain similar with the most recently completed year but will largely be dependant on the overall sales mix and competitive pressures.

Although the planned cost reduction initiative is now complete, the Company will continue to investigate opportunities for increased operational efficiencies and to eliminate redundancies.

With a strong backlog, Systems Engineering has a solid base to build on for a favourable year in 2003. Efficient use of resources coupled with successful execution of programs will provide continued contribution to overall results. The current downturn in the satellite communications industry will result in increased competitive pressures. However, the Division's excellent reputation for delivering high quality systems combined with the expanded emphasis on business development is expected to result in continued business with key customers. Diversification to adjacent markets that utilize existing core capabilities is expected to diminish the effects of a slower marketplace.

The recent contract wins in Staffing and Outsourcing Services, the expected continued increase in requirements with existing customers, and increased business development activities focused on identifying new market opportunities should allow the Division to experience moderate growth in 2003 and establish a solid baseline for continued growth in future years. However, factors such as the government's new direct hiring policy and timing in government spending could slow down the Division's expected growth and create a more aggressive and competitive marketplace. To mitigate these risks, the Division will maintain a flexible approach to allow it the ability to react quickly to changes in business environment.

As discussed previously, the Company may pursue acquisitions in the near future, when a very clear opportunity is presented that fits Calian's strategic focus and is economically justified.

Management's Statement of Responsibility

The accompanying consolidated financial statements of Calian Technology Ltd. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates that have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of Calian and its subsidiaries have developed and continue to maintain systems of internal accounting controls, including written policies and procedures and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this report through its Audit Committee. The Audit Committee meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the financial statements and financial reporting matters.

The financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee with and without the presence of management.

Larry O'Brien
Chairman and CEO

Jacqueline Gauthier
Chief Financial Officer

Kanata, Ontario
November 1, 2002

Auditors' Report

To the Shareholders of Calian Technology Ltd.

We have audited the consolidated balance sheets of Calian Technology Ltd. as at September 30, 2002 and 2001 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2002 and 2001 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Ottawa, Ontario
November 1, 2002

Consolidated Statements of Earnings and Retained Earnings

Years Ended September 30, 2002 and 2001

(dollars in thousands, except per share data)

	2002	2001
Revenues	$ 131,876	$ 120,648
Cost of revenues	109,057	99,219
Gross profit	22,819	21,429
Selling and marketing	4,601	5,215
General and administration	8,330	9,244
Facilities	2,720	2,774
Amortization of capital assets	1,573	1,780
Special charge (Note 13)	-	331
Earnings before interest, taxes and amortization of goodwill	5,595	2,085
Interest income, net	202	201
Earnings before taxes and amortization of goodwill	5,797	2,286
Income tax expense (Note 3):		
Current	745	203
Future	1,397	2,165
	2,142	2,368
Earnings (loss) before amortization of goodwill	3,655	(82)
Amortization of goodwill	236	236
Earnings (loss) from continuing operations	3,419	(318)
Loss from discontinued operation (net of income taxes) (Note 12)	-	(3,035)
Loss on disposal of discontinued operation (net of income taxes) (Note 12)	-	(11,341)
NET EARNINGS (LOSS)	3,419	(14,694)
Retained earnings, beginning of year	9,797	24,491
Excess of purchase price over stated capital on repurchase of shares (Note 6)	(2,159)	-
Retained earnings, end of year	$ 11,057	$ 9,797
Earnings (loss) per share from continuing operations (Note 7)		
Basic	$ 0.41	$ (0.03)
Diluted	$ 0.41	$ (0.03)
Net earnings (loss) per share (Note 7)		
Basic	$ 0.41	$ (1.51)
Diluted	$ 0.41	$ (1.51)
Weighted average number of shares		
Basic	8,320,341	9,763,403
Diluted	8,438,721	9,763,403

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

As at September 30, 2002 and 2001

(dollars in thousands)

	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,488	$ 12,211
Accounts receivable	25,307	18,394
Unbilled accounts receivable	3,472	3,865
Prepaid expenses and other	676	704
Note receivable, non interest bearing	50	100
Future income taxes (Note 3)	3,325	2,292
	42,318	37,566
GOODWILL	3,246	3,482
CAPITAL ASSETS (Note 4)	4,282	5,067
INVESTMENT TAX CREDITS RECOVERABLE (Note 3)	1,705	2,176
FUTURE INCOME TAXES (Note 3)	3,476	5,906
NOTES RECEIVABLE, non interest bearing	-	250
	$ 55,027	$ 54,447
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 15,291	$ 16,053
Unearned contract revenue	13,483	10,148
Current portion of long-term debt	164	160
	28,938	26,361
LONG-TERM DEBT (Note 5)	181	345
	29,119	26,706
CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	14,851	17,944
Retained earnings	11,057	9,797
	25,908	27,741
	$ 55,027	$ 54,447

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board:

Larry O'Brien,
Director

William G. Breen,
Director

Consolidated Statements of Cash Flows
Years Ended September 30, 2002 and 2001
(dollars in thousands)

	2002	2001
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings (loss)	$ 3,419	$ (14,694)
Items not affecting cash		
Deferred lease inducements	(9)	(12)
Amortization	1,809	2,790
Loss on disposal of assets (Note 12)	-	10,947
Investment tax credits	471	66
Future income taxes	1,397	(1,198)
	7,087	(2,101)
Change in non-cash working capital		
Accounts receivable	(6,913)	4,269
Unbilled accounts receivable	393	988
Prepaid expenses and other	28	383
Accounts payable and accrued liabilities	(762)	4,467
Unearned contract revenue	3,335	(4,799)
	3,168	3,207
CASH FLOWS FROM (USED IN) FINANCING ACTIVITES		
Repayment of debt	(151)	(708)
Issuance of common shares	334	199
Repurchase of common shares, including cost associated with repurchase (Note 6)	(5,586)	(3)
	(5,403)	(512)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITES		
Acquisition of capital assets	(788)	(1,169)
Proceeds on disposal of capital assets	-	9
Note receivable	300	100
	(488)	(1,060)
NET CASH (OUTFLOW) INFLOW	(2,723)	1,635
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,211	10,576
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,488	$ 12,211
SUPPLEMENTARY INFORMATION:		
Income taxes paid	14	140
Interest paid	46	77

The accompanying notes are an integral part of the consolidated financial statements

Notes to the Consolidated Financial Statements
Years Ended September 30, 2002 and 2001
(dollars in thousands, except per share data)

1. Nature of Operations

Calian Technology Ltd. ("the Company"), incorporated under the Canada Business Corporations Act, and its wholly owned subsidiaries primarily provide systems engineering and staffing and outsourcing services to industry and government.

2. Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Calian Ltd., Calian Inc. and Calian Technology (U.S.) Ltd.

Revenue recognition

Income on contracts is recognized at the net realizable value of services provided using the percentage of completion method based on management estimates. Billings and cash receipts in advance of amounts earned are reflected as unearned contract revenue. Provision is made for the entire amount of the expected losses, if any, in the period in which they are first determinable. In addition, a provision for warranty claims is established when revenue is recognized, based on warranty terms and prior claim experience. As some contracts extend over one or more years, any revision in cost and profit estimates made during the course of the work is reflected in the accounting period in which the facts indicating a need for the revision become known.

Unbilled accounts receivable

Unbilled accounts receivable represent work performed but not invoiced and are recorded at net realizable value.

Capital assets

Capital assets are recorded at cost, net of related government assistance and investment tax credits. Amortization is calculated using the declining balance method at rates ranging from 20% to 30%.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets of subsidiaries acquired and is amortized over a period not to exceed twenty years based on the facts and circumstances of each acquisition. The Company reviews the valuation and amortization of goodwill on an ongoing basis and if there has been a decrease in value that is considered to be other than temporary, based on future operations, goodwill is written down.

Income taxes

The Company and its subsidiaries account for income taxes using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of tax losses available to be carried forward to future years if these are likely to be realized.

2. Accounting Policies *(Continued)*

Foreign currency translation

The accounts of a wholly owned subsidiary, which is considered to be an integrated subsidiary, and accounts in foreign currencies have been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at year-end. Non-monetary items are translated at rates in effect on the dates of the transactions. Revenues and expenses are translated at rates in effect during the year except for amortization which is translated at the same rate as the assets to which it relates. Gains and losses from translation are included in earnings in the year in which they occur.

Financial instruments and risk management

The carrying amount of the Company's current monetary assets and liabilities approximates fair value.

The Company is exposed to fluctuations in foreign exchange rates on existing commitments and revenue denominated in foreign currencies. The net exposure is managed by creating offsetting positions through the use of forward foreign exchange contracts to hedge specific transactions. These foreign exchange contracts are not recorded on the balance sheet but are disclosed in the notes to the financial statements. Gains and losses related to the hedges of anticipated transactions are deferred and recognized in earnings when the hedged transaction occurs.

Earnings per share

Effective October 1, 2001, the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants with respect to the calculation of earnings per share. These new recommendations do not result in any changes to the way in which basic earnings per share is calculated. However, the new recommendations do affect the calculation of diluted earnings per share.

Diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the period plus the effects of potentially dilutive common shares outstanding during the period. This method requires that the dilutive effect of outstanding options be calculated using the treasury stock method, as if all dilutive options had been exercised at the latter of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period.

This change, which has been applied retroactively to the results of fiscal year 2001, did not result in any change to the diluted earnings per share for the year ended September 30, 2001.

Cash and cash equivalents

Cash and cash equivalents include investments with a major Canadian chartered bank that are held to maturity and money market instruments that have terms of three months or less at the time of acquisition. The carrying amounts of cash and cash equivalents are stated at cost, which is equal to their fair value.

(dollars in thousands, except per share data)

3. Income Taxes

The balances of future income tax assets (current and long-term) at September 30, 2002 represent the future benefits of temporary differences between the tax and accounting bases of assets and liabilities, consisting mainly of future tax deductions, research and development expenditures and losses available to be carried forward for tax purposes to the extent that they are likely to be realized.

Research expenditures

The Company and its subsidiaries have $9,215 of research expenditures available to reduce future earnings for tax purposes. This amount may be carried forward indefinitely but will be reduced by any related investment tax credits claimed.

Income tax losses

The Company and its subsidiaries have $3,768 of federal losses and $796 of provincial losses available to reduce future earnings for income tax purposes, which expire as follows:

	Federal	Provincial
2003	$ 19	$ 2
2004	71	67
2005	1,613	291
2006	46	-
2008	2,019	436
	$ 3,768	$ 796

Investment tax credits

The Company and its subsidiaries have investment tax credits available to apply against future federal income taxes payable, which expire as follows:

2005	$ 346
2006 and thereafter	1,359
	$ 1,705

The future tax assets of the Company are comprised of the following elements:

	2002	2001
Income tax losses	$ 1,184	$ 2,268
Research and development expenditures	2,416	2,305
Tax base of assets in excess of book base	1,356	1,480
Book base of liabilities in excess of tax base	1,845	2,145
	6,801	8,198
Current	3,325	2,292
Long-term	$ 3,476	$ 5,906

(dollars in thousands, except per share data)

3. Income Taxes *(Continued)*

The following table reconciles the difference between the income taxes that would result solely by applying statutory tax rates to pre-tax income and the income taxes actually provided in the accounts:

	2002	2001
Earnings before taxes and amortization of goodwill	$ 5,797	$ 2,286
Amortization of goodwill	236	236
Earnings before income taxes	5,561	2,050
Tax provision at the combined basic Canadian federal and provincial income tax rate of 39.9% (2001 - 43.2%)	2,219	885
Increase (decrease) resulting from:		
Non-deductible amortization	94	102
Other permanent differences	43	274
Impact of rate reductions on valuation of future income tax assets	(270)	1,055
Other	56	52
	$ 2,142	$ 2,368

4. Capital Assets

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and fixtures	$ 10,411	$ 6,129	$ 4,282	$ 5,067

5. Long-Term Debt

	2002	2001
Capital leases at rates ranging from 5.5% to 7.4% per annum, secured by underlying assets	$ 289	$ 438
Other non-interest bearing	56	67
	345	505
Less amounts due within one year	164	160
	$ 181	$ 345

Principal amounts are due as follows:		
	2003	$164
	2004	92
	2005	61
	2006	9
	2007 and thereafter	19

(dollars in thousands, except per share data)

6. Share Capital

Authorized

Unlimited number of common shares
Unlimited number of preferred shares issuable in series

Issued

Common shares as follows:

	2002		2001	
	Shares Issued	Amount	Shares Issued	Amount
Balance, beginning of year	9,774,701	$ 17,944	9,718,455	$ 17,748
Shares issued for cash	130,528	334	57,346	199
Shares repurchased	(1,866,456)	(3,427)	(1,100)	(3)
Balance, end of year	8,038,773	$ 14,851	9,774,701	$ 17,944

In December 2001, the Company acquired 1,786,956 (or 18.3%) of its outstanding common shares at a price of $2.80 per share, for a total of $5,280 including related expenses of $276, through a Substantial Issuer Bid procedure known as a Dutch Auction. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

During fiscal 2002, the Company acquired 79,500 (or 0.8 %) of its outstanding shares at an average price of $3.85 per share for a total of $306 through a Normal Course Issuer Bid initiated in May 2002 for a period of one year. The excess of the purchase price over the average stated capital of the shares has been charged to retained earnings.

Share options

The Company has established a stock option plan, whereby grants are made at the sole discretion of the Company's Board of Directors. Under this plan, eligible directors and employees are granted the right to purchase shares of common stock at a price established by the Board of Directors on the date the options are granted.

These purchase options are granted with vesting terms ranging from immediately to over three years and a maximum term to expiry of five years, and are contingent on the option holders maintaining their employment. The number of shares authorized for grants of options is 1,700,000 less the number of options exercised since the inception of the plan. The number of options available to be granted at September 30, 2002 is 250,380.

	2002		2001	
	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding, beginning of year	723,915	$ 3.75	1,039,232	$ 4.29
Granted	435,000	$ 2.61	89,250	$ 3.27
Exercised	(95,500)	$ 2.45	(25,100)	$ 2.69
Forfeited or expired	(119,135)	$ 4.75	(379,467)	$ 5.18
Outstanding, end of year	944,280	$ 3.23	723,915	$ 3.75

(dollars in thousands, except per share data)

6. Share Capital *(Continued)*

As at September 30, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Avg. Remaining Contractual Life (Yrs)	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Exercise Price
$2.25 - $2.65	448,250	3.68	$2.42	168,175	$2.31
$2.80 - $3.20	158,975	2.04	$2.98	122,950	$2.99
$3.45 - $3.80	140,655	2.69	$3.58	90,655	$3.57
$4.25 - $4.35	139,000	2.23	$4.32	91,740	$4.32
$5.30 - $6.90	57,400	2.81	$6.80	44,680	$6.86
	944,280	2.99	$3.23	518,200	$3.44

Employee stock purchase plan

The Company has a plan under which most full-time employees may register in December to participate in the following calendar year's stock purchase plan. Eligible employees may purchase common shares by payroll deduction throughout the calendar year at a price of 90% of the fair market value at the beginning of the calendar year. Such shares are issued from treasury at the beginning of the following calendar year.

A total of 350,000 common shares have been authorized for issuance under the plan. For the calendar year ended December 31, 2002, approximately 18,442 common shares will be issued under the Plan at a price of $2.25. Since inception and including the issuance of shares in January 2002, 96,923 shares have been issued under the plan.

7. Earnings (Loss) Per Share

The diluted weighted average number of shares has been calculated as follows:

	September 30	
	2002	2001
Weighted average number of shares - basic	8,320,341	9,763,403
Additions to reflect the dilutive effect of employee stock options	118,380	-
Weighted average number of shares - diluted	8,438,721	9,763,403

Options that are anti-dilutive because the exercise price was greater than the average market price of the common shares, are not included in the computation of diluted earnings per share. For Fiscal 2002, 356,680 stock options were excluded from the above computation of diluted EPS because they were anti-dilutive (2001 - 517,417).

(dollars in thousands, except per share data)

8. Contingencies

During fiscal 2001, the Company reported a lawsuit with the selling shareholders of PPI Canada Ltd. (PPI). During the year, the Company and the selling shareholders of PPI have agreed to an out of court settlement of their respective claims. No additional charge to discontinued operation is required as a result of the settlement.

The Company is party to several other claims aggregating approximately $450, which are being contested. The potential outcomes of these matters are not determinable at this time. The Company intends to defend these actions, and management believes that the resolution of these matters will not have a material adverse effect on Calian's financial condition.

In prior years, the Company received assistance from the Government of Canada relating to research and development activities amounting to approximately $3,148. This assistance may be repayable based on future sales of the projects funded. A liability will be recognized in the period in which conditions arise that cause repayment. At September 30, 2002 no provision for payment is required.

9. Commitments

The Company has lease agreements with terms extending to the year 2011. The aggregate minimum rental payments under these arrangements are as follows:

2003	$	3,007
2004		2,728
2005		2,473
2006		2,489
Subsequent years		6,356

As part of its e-business strategy, during the year 2000, the Company entered into a 10-year lease for an office building in the Ottawa area expiring in May 2010. Upon exit of the e-business sector in 2001, the Company did not have any requirements for the space and accordingly sub-let the excess space to a third party for a period of 5 years ending May 2006. In the event the sub-lessee defaults on the payment or the Company cannot sub-lease the premises for the remaining 4 years, Calian will be required to assume the lease including related operating costs for the remaining term of the lease. The lease payments including operating costs relating to the excess space amount to approximately $900 per year.

10. Segmented Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker regarding how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer.

The Company operates in two reportable segments described below, defined by their primary type of service offering, namely Systems Engineering and Staffing and Outsourcing Services.

> Systems Engineering involves planning, designing and implementing solutions that meet a customer's specific business and technical needs, primarily in the satellite communications sector.
>
> Staffing and Outsourcing Services involves both short and long-term placements of personnel to augment customers' workforces (Staffing) as well as the long-term management of projects, facilities and customer business processes (Outsourcing).

The Company evaluates performance and allocates resources based on earnings before interest and income taxes. The Company does not segregate assets between Staffing and Outsourcing Services and Corporate Services. The accounting policies of the segments are the same as those described in Note 2.

(dollars in thousands, except per share data)

10. Segmented Information *(Continued)*

For the Fiscal Year ending September 30, 2002

	Systems Engineering	Staffing and Outsourcing Services	Corporate and Other (a)	Total
Revenue	$ 46,373	$ 85,503	$ -	$ 131,876
Operating expenses	40,678	82,491	1,539	124,708
Amortization	754	1,055	-	1,809
Earnings before interest and income taxes	4,941	1,957	(1,539)	5,359
Interest income				202
Income tax expense				2,142
Net earnings				$ 3,419
Total assets other than cash	$ 14,324		$ 31,215	$ 45,539
Cash				9,488
Total Assets				$ 55,027
Capital asset expenditures	$ 551		$ 237	$ 788

For the Fiscal Year ending September 30, 2001

	Systems Engineering	Staffing and Outsourcing Services	Corporate and Other (a) (b)	Total
Revenue	$ 40,022	$ 80,626	$ -	$ 120,648
Operating expenses	35,503	78,174	2,775	116,452
Amortization	759	1,137	120	2,016
Special charge	-	182	149	331
Earnings before interest and income taxes	3,760	1,133	(3,044)	1,849
Interest income				201
Income tax expense				2,368
Earnings (loss) from continuing operations				(318)
Discontinued operation				(14,376)
Net earnings (loss)				$ (14,694)
Total assets other than cash	$ 8,118		$ 34,118	$ 42,236
Cash				12,211
Total Assets				$ 54,447
Capital asset expenditures	$ 428		$ 741	$ 1,169

(a)Includes corporate services costs not appropriate to allocate to the operating segments.
(b)Total assets include the assets of the eServices business.

(dollars in thousands, except per share data)

10. Segmented Information *(Continued)*

The Company's revenues from all foreign countries represent approximately 32% in fiscal 2002 and 27% in fiscal 2001. Revenues from external customers are attributed as follows:

	2002	2001
Canada	68%	73%
United States	14%	15%
Europe	18%	11%
Other	0%	1%

Revenues are attributed to foreign countries based on the location of the customer. No significant assets are held outside of Canada.

Revenues from various departments and agencies of the Canadian federal government represented 37% (2001, 38%) of the Company's total revenues. Both operating segments conduct business with this major customer.

In 2002, revenue from a certain customer accounted for 22% of the Company's total revenues (2001, 24%), all from the Staffing and Outsourcing Services segment.

11. Financial Instruments and Risk Management

The Company uses financial instruments, principally in the form of forward exchange contracts, in its management of foreign currency exposures. These contracts primarily require the Company to purchase or sell certain foreign currencies with or for Canadian dollars at contractual rates. At September 30, 2002, the Company had the following forward foreign exchange contracts:

Type	Amount	Currency	Maturity	Equivalent Cdn. Dollars
Sell	14,150,000	USD	October 2002	$ 22,375,395
Sell	544,119	EURO	October 2002	834,750

The unrealized gains and losses related to the above items are not significant.

In addition, the Company is exposed to credit risk from customers. The Company's business is mostly with large corporations and government clients, which minimizes credit risk. The Company also has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks.

12. Discontinued Operation

On May 16, 2001 the Company's Board of Directors approved a formal plan to dispose of all of the assets of the eServices business. The approved plan consisted of rationalizing the eServices operations by making adjustments to the workforce and facilities commensurate with the size of the business and selling the resized business. The effective date of disposal was June 30, 2001.

(dollars in thousands, except per share data)

12. Discontinued Operation *(Continued)*

During the year ended September 30, 2001, the Company recorded a loss on disposal of the eServices business of $13,287 before tax and $11,341 after tax, including rationalization costs and operating losses subsequent to May 16, 2001. These amounts (pre-tax) are as follows:

(i) Rationalization costs:		
Workforce reduction	$	731
Legal, consulting and other		852
Provision for excess facilities		213
	$	1,796
(ii) Loss on disposal of assets:		
Goodwill	$	7,485
Capital assets		2,755
Other assets		707
	$	10,947
(iii) Loss from operations from May 16 to June 30, 2001	$	544

The revenues of the eServices business for the year ended September 30, 2001 were $6,264. The net loss before tax was $4,434 ($3,035 after tax).

The loss per share from the discontinued operation for the year ended September 30, 2001 was ($0.31) basic and diluted.

13. Special Charge

During the year ended September 30, 2001 the Company recorded legal, settlement and other costs amounting to $331.

Corporate Information

Office locations

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Phone: 613.599.8600
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Fax: 613.238.3831

Toronto Office

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Fax: 905.848.4944

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Systems Engineering - Calgary

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Fax: 403.250.1011

United States Office

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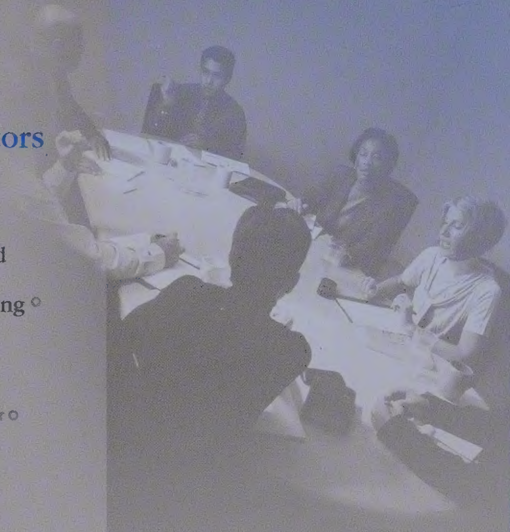

Board of Directors

Larry O'Brien
Chairman and CEO
Calian Technology Ltd

W.G. Donald Armstrong ○
President
Armstrong Shoes Ltd.

Anthony F. Griffiths ★○
Corporate Director

William G. Breen ◆
Corporate Director

Kenneth J. Loeb ◆
President
Capital Box of Ottawa Limited

★ Lead Director
◆ Member of Audit Committee
○ Member of Compensation and Governance Committee

Common Share Information

The Company's common shares are listed for trading on the Toronto Stock Exchange under the symbol CTY.

Dividend Policy

The Company changed its dividend policy effective the fourth quarter of fiscal 2002. The company intends to pay a dividend four times a year. The dividend schedule for the fiscal 2003 is as follows:

Record Date	Payment Date
February 6, 2003	February 20, 2003
May 8, 2003	May 22, 2003
August 7, 2003	August 21, 2003
November 13, 2003	November 27, 2003

Annual Meeting of Shareholders

The Annual General Meeting of the Shareholders of Calian will be held on February 26, 2003 at 3:00 p.m. at the Ottawa Congress Centre, Ottawa, Ontario, Canada. All shareholders are invited to attend. The telephone number of the Congress Centre is 613.563.1984.

CALIAN